VZCZCXYZ0003
PP RUEHWEB

DE RUEHMO #2514/01 2351123
ZNY CCCCC ZZH
P 221123Z AUG 08
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 9640
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L MOSCOW 002514

SIPDIS

STATE FOR EUR/RUS, EEB/IFD
TREASURY FOR TORGERSON
DOC FOR 4231/MAC/EUR/JBROUGHER
NSC FOR WARLICK

E.O. 12958: DECL: 06/05/2018
TAGS: EFIN ECON RS
SUBJECT: RUSSIA'S ANTIMONOPOLY SERVICE FINES MECHEL,
DECREES LOWER COAL PRICES

REF: MOSCOW 2308

Classified By: ECON MC Eric T. Schultz, Reasons 1.4 (b/d).

Summary

¶1. (C) The Federal Anti-monopoly Service (FAS) announced on August 13 that it had found Mechel's coking coal operations to have violated competition law through its monopolistic domestic pricing practices. On August 19, FAS announced that it would assess a $32 million fine, or 5 percent of the firm's 2007 coking coal revenues. The FAS review also ordered Mechel to reduce the price of its long-term coal supply contracts by 15 percent. Mechel's "punishment" was much less than many analysts had predicted. However, it has troubling implications for the government's efforts to fight inflation, confirming a preference for administrative controls over market solutions. End Summary.

FAS Finds Against Mechel

¶2. (U) Mechel violated competition laws, according to the Federal Antimonopoly Service's (FAS) review of the steelmaker's coking coal operations. Based on an assessment of the company's market share and the prices it charged domestically for supplies of coking coal, FAS officials determined that Mechel enjoyed and exploited near-monopoly control of the coking coal market to raise prices beyond "purely economic and commercial justification." FAS representatives announced the conclusion of the Service's review on August 13 and said that Mechel would be fined and would need to lower the price of its long-term domestic supply contracts. FAS officials noted at that time that the company had cooperated with the investigation and hat this would serve to mitigate the amount of the fine and the scope of the reduction in contract price.

¶3. (U) FAS officials subsequently announced on August 19 that Mechel would have to pay a fine equivalent to $32 million, or 5 percent of the company's coking coal revenue earned in 2007. The legislation governing FAS reviews allowed fines ranging from 1 to 15 percent of a firm's revenue; analysts hailed the level of the imposed fine as a victory for Mechel. FAS also directed Mechel to make long-term contracts available to other steel producers, such as Novolipetsk-based NLMK, to which Mechel had previously refused to sell. The directive also reduced by 15 percent the per-unit price of coking coal that Mechel would be

allowed to charge in long-term contracts signed between September 1 and the end of 2008.

¶4. (U) FAS Director Igor Artemiev also stated this week that reviews of steelmaker Evraz and coal-supplier Raspadskaya were near completion. He said that FAS would apply measures to their coking coal operations similar to those assessed of Mechel.

"It could have been worse"

¶5. (C) Standard and Poor's-Russia Metals and Mining Analyst Andrey Nikolaev said that the result, on balance, was good news for Mechel. (N.B. Mechel's stock price rose four percent following the announcement.) The FAS elected to focus its review on Mechel's coking coal business, which was sizable but considerably smaller than Mechel's total revenues. Nikolaev speculated that Artemiev asserted his authority during the review process to "prevent the punishment from turning into a feeding frenzy" That would threaten the company's survival. He said that when Artemiev presented his report, he received a "cool" reception from Putin. He speculated that Putin was displeased that Mechel had received such a "light sentence" from FAS.

¶6. (C) Deutsche Bank Metals and Mining Analyst Mikhail Seleznev told us he agreed with Nikolaev's view that Artemiev had resisted pressures to "apply more pain" to Mechel. He attributed this more to Artemiev's "style" and interest in avoiding further shocks to an already skittish market than to a disagreement with Putin. Artemiev most likely supported

Putin's interest in using administrative means such as the FAS to discipline "wayward companies" and enforce Putin's view of competition. According to Seleznev, coal producers were probably not the last targets in Putin's "competition-promoting" sights.

Comment

¶7. (C) We expect that Mechel, Evraz and Raspadskaya will probably be forced to keep their domestic coking coal contract prices low past the December 31 expiration date of the FAS decision. The effect on their bottom-line should be relatively minimal since the bulk of their sales are exports. It is also good news for Mechel's management and shareholders that they were not "Yukosed," i.e. their assets were not seized. However, the incident confirms the government's inclination toward administrative measures to control prices, which does not bode well for its efforts to fight inflation. For its part, the FAS appears to now be the weapon of choice against out-of-favor businessmen and their enterprises, displacing the tax authorities, and we expect to see it assume a higher profile in the near future.
BEYRLE